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STATE FOR EUR/CARC, NEA/SCA AND EEB/ESC/IEC
COMMERCE FOR SECRETARY GUTIERREZ

E.O. 12958: DECL: 01/22/2018

TAGS: PREL ECON ENRG GG KZ

SUBJECT: COMMERCE SECRETARY GUTIERREZ'S JANUARY 20 MEETING
WITH KAZAKH PRIME MINISTER

Classified By: Ambassador John F. Tefft, reason 1.4(b) and (d).

¶1. (C) Summary: During his January 20 visit to Tbilisi, Georgia for the inauguration of President Mikheil Saakashvili, Secretary of Commerce Carlos Gutierrez met with the Prime Minister of Kazakhstan, Karim Masimov, at Masimov's request. Masimov told the Secretary he is ready to come to the United States for a Public-Private Partnership meeting in March. The Secretary agreed to Masimov's proposal and indicated that he would await Masimov's suggestions for dates. Masimov said that a "peaceful solution" had been reached between the Government of Kazakhstan and U.S. oil companies regarding the Kashagan oil project in Kazakhstan. He said the Kazakh economy is now linked to world markets and has suffered as a result of the subprime mortgage crisis in the United States. The Secretary described the stimulus package planned for the U.S. economy, and said he expects a slowing of growth but not a recession in 2008. End Summary.

¶2. (C) Masimov opened the meeting by stressing that Kazakhstan's bilateral relationship with the United States is an important one for Kazakhstan. He said that he had wanted to come to the United States in 2007 to hold a meeting to discuss Public-Private Partnerships, but was unable to do so. He suggested that he would like to come to the United States for the meeting in March 2008. He told the Secretary that Kazakhstan has reached a "peaceful solution" with Exxon-Mobil and Conoco-Phillips regarding development of the Kashagan oilfield. All problems have been resolved, he said, and the project can go forward. The Secretary welcomed that news.

¶3. (C) The Secretary said that the United States also values its relationship with Kazakhstan and considers it a strategic ally. He said he was pleased about Kazakhstan's recent purchase of Boeing aircraft. He told Masimov that he supports the Public-Private Partnership meeting idea, and that Commerce will work to put together a list of current and potential investors in Kazakhstan who could be invited to attend. He agreed that March is a good time for the meeting. Masimov replied that he will bring with him some Kazakh officials and company representatives. He said discussions on the format of the meeting should begin immediately. While in Washington, he would also like to meet with the financial community in the United States.

¶4. (C) Masimov reported that the Kazakh economy is doing well, but has been affected by the subprime mortgage crisis in the United States. The Kazakh economy is an open one, he said, and its banks are involved with the international community. The banks, as well as the construction industry, have been impacted by the subprime problem. Nevertheless, problems that arose in the local economy in September and

October have been largely resolved, he added. Higher prices for oil and minerals are helping the Kazakh economy. He expects 8.7 percent growth in 2007 and 7 percent in 2008. He said that the Kazakh government has hired James Wolfensohn as an economic advisor.

¶5. (C) The Secretary said that growth in the United States has also begun to slow lately. Nevertheless, the unemployment rate is only 5 percent, and third quarter 2007 growth was 4.9 percent. Exports were up in the second and third quarters of 2007. However, a slowdown in residential construction has cost the U.S. economy 1.5 percentage points of growth. Therefore, the President has announced a fiscal stimulus package amounting to 1 percent of U.S. GDP, in order to prevent the slowdown from becoming serious. One measure in the program will be accelerated depreciation benefits. While growth may be slow, he said, it will still be positive.

The U.S. economy is resilient and will adjust as risk is being repriced in the financial markets, he said. Masimov said that what happens in the U.S. economy is important to the rest of the world, so much so that he reads the U.S. financial news in the morning before turning to the Kazakh news.

¶6. (C) The Secretary asked Masimov about Kazakhstan's economic relations with China. Masimov deemed the relationship good, and said China is Kazakhstan's fourth largest trading partner. As for Russia, he said that high commodity prices had helped Russia in the past few years, but that Russia needs more structural reforms and to diversify its economy. Even Russia may face economic problems soon, he predicted. Kazakhstan's economy is experiencing higher food prices due to more expensive grain. The country needs to develop more food processing industries, he said, and U.S. food processors can help. The Secretary said that

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agribusiness could be included on the agenda of the Public Private Partnership. Masimov said that 40 percent of the Kazakh population works in agriculture and 15 percent in industry. However, productivity in agriculture is low, and it produces only 10 percent of GDP.

¶7. (C) Masimov said that the fast growing construction sector in Kazakhstan has been attracting labor from the farms to the cities, but is slowing down now. The Secretary noted that migration to the cities is a hard demographic problem that has affected countries like India. Masimov said that Kazakhstan is smaller, and the problem is easier for it to manage. Many foreigners are coming to work in Kazakhstan as well, he said.

TEFFT